

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 8073

BILL NUMBER: SB 427

DATE PREPARED: Apr 5, 2001

BILL AMENDED: Apr 5, 2001

SUBJECT: Generic Drugs under CHIP and Television Advertising of Legend Drugs.

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FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Generic Drugs under CHIP:* This bill requires a pharmacist who fills a prescription that is covered under the Children's Health Insurance Program (CHIP) to fill the prescription with a generically equivalent drug product and inform the customer of the substitution if the substitution results in a lower price, unless the prescribing practitioner indicates that the prescription must be filled with a brand name drug.

Television Advertising of Legend Drugs: The bill also defines "television station" as a broadcasting station: (1) that is licensed by the Federal Communications Commission as a commercial television station; and (2) whose transmission is received in Indiana. The bill requires a legend drug manufacturer to provide to the Office of Medicaid Policy and Planning (OMPP) four times each year a list of legend drugs advertised on a television station during the previous quarter. It also requires a legend drug manufacturer to provide each pharmacy that participates in the Medicaid program with copies of a verbatim written transcript of each advertisement. The bill requires OMPP to require prior authorization for a legend drug advertised on a television station during the previous quarter. It also provides that if a manufacturer fails to comply with advertising and reporting requirements for a legend drug, a prescription for the legend drug may not be filled under the Medicaid program. The bill requires a pharmacist, when dispensing a legend drug that requires prior authorization due to being advertised on a television station, to provide the patient with a copy of the verbatim written transcript of any advertisement regarding that drug.

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) *Summary:* The provision regarding generic drugs in the CHIP program is expected to result in a reduction of state expenditures in the CHIP program by \$46,000 in FY 2002 and \$62,000 in FY 2003. The provision regarding television advertising of legend drugs could affect the number of drugs placed on prior authorization in the Medicaid program. The effect of this provision is unknown and would depend on the behavior and actions of legend drug manufacturers in response to the new

requirements.

Background on Generic Drugs under CHIP: The Office of Medicaid Policy and Planning (OMPP) reports that there were approximately 91,000 prescriptions dispensed as brand name for children enrolled in CHIP for FY 2000 and who would be affected by this provision. The average cost reduction per prescription for generic drugs over brand name products was about \$55. Based on a state share of expenditures of 27% in the CHIP program and assuming that the CHIP program realizes half this amount in reduced drug expenditures from the substitution of generic products, the reduction in expenditures in the CHIP program is estimated to be up to be \$46,000 in FY 2002 and \$62,000 in FY 2003. Total expenditure savings, state and federal dollars, would be about \$172,000 in FY 2002 and \$229,000 in FY 2003.

Prescription drugs accounted for about 14% of CHIP expenditures in FY 2000. Generic substitution is already required in the regular Medicaid program (IC 16-42-22-10). This bill would require that this provision apply to the CHIP program, as well.

In addition, unlike the Medicaid program, the federal allotment for the CHIP program is capped. Consequently, a reduction in expenditures for prescription drugs will allow those dollars to be utilized for other services within the CHIP program.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration.

Local Agencies Affected:

Information Sources: Susan Preble, Legislative Liaison for FSSA, (317) 232-1149.